

Research Bulletin

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Average Gross Margin for Project Personnel Is 40%

The European project services market has been very competitive in the 1990's. Consequently many vendors have made project services personnel redundant and organisations have sought to reduce the per capita cost of employment of their project services personnel.

Vendors must benchmark their project services activities to ensure that these business units remain competitive. It is possible to estimate revenues and gross margins per capita for project personnel from some vendors' published financial information. However, there is a danger that administrative personnel, as well as project personnel, will be included in any published data. In addition, it is difficult to measure charge-out rates from published financial data.

This research bulletin is the second of two, that endeavour to provide some basic benchmarking data for vendors operating in the systems integration and project services environments. The metrics shown below are based on the results of a questionnaire sent to twenty major

European project services vendors, requesting highly confidential data. Seven responses were received primarily from the systems integration units of leading equipment vendors in Germany and the U.K.

This bulletin analyses vendor charge-out rates, revenues per capita, and estimates the average gross margin for project services personnel. On average:

- The daily charge-out rate for project personnel is \$900
- Project personnel achieve annual revenues of \$135K per capita
- German clients pay higher rates for project personnel than customers in the U.K.

Average Daily Charge-Out Rate for Project Personnel is \$900

Exhibit 1 shows the average daily charge-out rates achieved analysed by category of personnel.

Exhibit 1

Average Daily Charge-Out Rate (\$)

Category of Personnel	Average	Maximum	Minimum
Senior business consultant	1,500	1,750	1,350
Senior IT consultant	1,100	1,580	750
Junior consultants	830	1,150	570
Consultants overall	930	1,325	600
Project director	1,350	1,750	900
Project manager	1,100	1,450	600
Other project personnel	875	1,200	450
Project personnel overall	900	1,270	480

Source: INPUT

To provide guidance to respondents, the following definitions of project personnel were provided:

- *Project director*—Responsible to client for project delivery on major projects
- *Project manager*—Responsible for individual area within major project e.g. management of one or more subcontractors
- *Project personnel overall*—Includes all project personnel including consultants
- *Senior business consultant*—Includes management consultancy and high-level application-specific advice
- *Senior IT consultant*—For example, includes IT strategy development and high-level technical infrastructure design

The exchange rates used are:

- \$1 = DM1.66
- £1 = \$1.5

Exhibit 2

Maximum Daily Charge-Out Rate (\$)

Category of Personnel	Average	Maximum	Minimum
Senior business consultant	1,900	2,650	1,500
Senior IT consultant	1,700	2,650	1,125
Junior consultants	1,100	1,650	750
Consultants overall	1,700	2,650	1,275
Project director	1,750	2,450	1,500
Project manager	1,300	1,800	660
Other project personnel	1,250	1,550	825
Project personnel overall	1,600	2,450	1,060

Source: INPUT

The largest variation in average charge-out rate is between vendors' rates for junior project personnel. For this category of personnel, the variation between the lowest average rate and the highest average rate is a factor of 270%. There is no evidence to suggest that vendors' profit margins on these personnel vary accordingly. Accordingly, vendors will improve their price-

competitiveness in project delivery if they use offshore development and home-working as techniques to reduce the cost of employment of junior development personnel.

Exhibits 3 and 4 identify the maximum and minimum daily charge-out rates by category of project personnel.

Exhibit 3

Minimum Daily Charge-Out Rate (\$)

Category of Personnel	Average	Maximum	Minimum
Senior business consultant	1,300	1,750	815
Senior IT consultant	1,100	1,580	600
Junior consultants	750	1,150	375
Consultants overall	800	1,200	375
Project director	1,000	1,560	680
Project manager	900	1,350	570
Other project personnel	630	1,160	300
Project personnel overall	660	1,160	300

Source: INPUT

Project Personnel Achieve Average Annual Revenues of \$135K Per Capita

Exhibit 4 identifies the average revenues per annum by category of personnel.

This was derived by multiplying the average number of revenue earning days by the average charge-out rate for each category of personnel for each vendor.

Exhibit 4

Average Revenues per Annum: \$(000's)

Category of Personnel	Average	Maximum	Minimum
Senior business consultant	170	225	135
Senior IT consultant	165	220	105
Junior consultants	120	150	80
Consultants overall	130	170	95
Project director	185	315	135
Project manager	160	260	110
Other project personnel	130	220	60
Project personnel overall	135	230	85

Source: INPUT

Overall the revenues per head derived from consultants and from other project personnel are comparable at approximately \$130K per annum.

The lowest average revenue per head figures shown in the right hand column of Exhibit 4, are primarily the result of low utilisation rates, rather than low charge-out rates. The vendor with an average revenue per head of \$60K per annum for *other project personnel* is not the vendor with the lowest average charge-out rate in this category.

However, margin per capita is a more important measure of success than revenue per capita, and so vendors' costs of employment need to be taken into account.

The average annual cost of employment is shown by category of personnel in Exhibit 5.

The volume of data is insufficient to provide meaningful gross margins by category of personnel. However, it is possible to estimate gross margins at the level of consultants and overall project personnel. On average, the gross margins across all project personnel are estimated to be approximately 40% with consultants averaging gross margins of 43%.

Germany Pays Higher Rates for Project Personnel than U.K.

The majority of responses came from vendors in Germany and the U.K.. While there appears to be no significant difference in utilisation rates of project personnel between Germany and the U.K., charge-out rates do appear to be higher in Germany.

Exhibit 5

Average Annual Cost of Employment: \$(000's)

Category of Personnel	Average	Maximum	Minimum
Senior business consultant	120	137	108
Senior IT consultant	100	126	90
Junior consultants	75	98	60
Consultants overall	95	130	66
Project director	110	135	90
Project manager	90	128	68
Other project personnel	70	102	42
Project personnel overall	77	110	53

Source: INPUT

Exhibit 6

Contrasts between Germany and U.K.: Consultancy

Benchmark	Germany	U.K.
Minimum daily rate (\$)	850	600
Maximum daily rate (\$)	1,600	1,400
Average daily rate (\$)	1,000	800
Revenues per annum (\$000's)	130	110

Source: INPUT

The estimated differences between the two countries in charge-out rates and average revenues per capita are shown in Exhibits 6 and 7. However, it would be wrong to assume that the higher revenues per capita achieved in Germany necessarily result in higher margins. While it is difficult from the data available to generate precise gross margins by country it appears that the

cost of employment differences between Germany and the U.K. cancel out any benefit from higher charge-out rates.

Overall there appears to be considerably more variation in margin between individual vendors than between country averages.

Exhibit 7

Contrasts between Germany and U.K.: Project Personnel

Benchmark	Germany	U.K.
Minimum daily rate (\$)	850	400
Maximum daily rate (\$)	1,500	1,350
Average daily rate (\$)	1,000	700
Revenues per annum (\$000's)	150	105

Source: INPUT

This Research Bulletin is issued as part of INPUT's Business Integration Program—Europe. If you have questions or comments on this bulletin, please call your local INPUT organisation or Peter Lines at INPUT, 17 Hill Street, London, W1X 7FB, +44 (0)71 493 9335.